



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
MASSACHUSETTS BAY SELF-INSURANCE
GROUP, INC.

Woburn, Massachusetts

As of December 31, 2015

EMPLOYERS ID NO. 04-3226260

MASSACHUSETTS BAY SELF-INSURANCE GROUP, INC.

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COMMONWEALTH OF MASSACHUSETTS
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ACTING COMMISSIONER OF INSURANCE

March 16, 2017

Honorable Gary D. Anderson
Acting Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your specific instructions and by authority of Section 25I of Chapter 152 of the Massachusetts General Laws ("MGL"), an examination has been made of the transactions and financial condition as of December 31, 2015, of the

MASSACHUSETTS BAY SELF-INSURANCE GROUP, INC.

at its main administrative office located at 15 Cabot Road, Woburn, Massachusetts 01801. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Bay Self-Insurance Group, Inc., ("Group"), was last examined by the Massachusetts Division of Insurance ("Division") as of December 31, 2012. The examination covers the transactions of the Group from January 1, 2013, through December 31, 2015 including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

The current examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Group by obtaining information about the Group, including corporate governance, identifying and assessing inherent risks within the Group, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the Group were considered in accordance with a modified risk-focused examination process.

In addition to a review of the financial condition of the Group, the examination included a review of the Group's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bond and other insurance, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Group was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The books and records of the Group for the years under examination were audited by Shores, Tagman, Butler & Company, P.A., independent certified public accountants. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There have not been any significant findings noted during the current examination and there were no significant findings noted during the previous examination.

HISTORY

General

The Group was organized on April 14, 1994, as a workers' compensation self-insurance group under Massachusetts General Law Chapter 152, Sections 25E through 25U. The Group was created to make available workers' compensation coverage for a group of charitable organizations which receive funding from the United Way of Massachusetts Bay.

MANAGEMENT AND CONTROL

Pursuant to the bylaws the affairs of the Group shall be managed by the Board of Trustees, who shall have and may exercise all the powers of the Group except those powers reserved to the members by law, the articles of organization or the bylaws. To assist in the management of the Group, the board of trustees shall appoint an Administrator to perform and manage the day-to-day activities of the Group. The board shall have the power to adopt and issue rules, regulations, policies and procedures which shall be binding upon the members and the Administrator.

Members

The members of the corporation shall be those entities who are members of the Group; provided that the number of members shall at no time be fewer than five. To be eligible for membership, an entity must be an organization which is engaged in the charitable, human and social services industry whose payroll is domiciled in the Commonwealth of Massachusetts and be a member in good standing of or receive funding from the United Way of Massachusetts Bay, Inc. A potential member must complete and execute an application and indemnity agreement approved by the board of trustees and receive written acceptance of membership pursuant to the bylaws.

Board of Trustees

The Board of Trustees shall consist of a minimum of seven (7) trustees to a maximum of eleven (11) trustees. At least two-thirds (2/3) of the trustees shall be employees, officers, directors or trustees of members of the Group. All trustees shall be residents of the Commonwealth of Massachusetts or officers authorized to do business in the Commonwealth of Massachusetts. Each trustee holds office for a term of one year. Upon expiration or resignation, his/her successor is elected at any special or regular meeting of the members.

The members of the board of trustees as of December 31, 2015 were as follows:

<u>Trustee</u>	<u>Professional Affiliation</u>
Robert Rutherford	Director of Human Resources, Bay Cove Human Services, Inc.
Terrence B. Gagne	CFO, Pine Street Inn, Inc.
Donna Desmond	CFO, YMCA of Greater Boston
Laure Donkin	Human Resources Director, Girl Scouts of Eastern Mass.

MASSACHUSETTS BAY SELF-INSURANCE GROUP, INC.

Cecile Durham	Director of Human Resources, Victory Programs, Inc.
Jeffery Lieberman	Vice President, Fenway Community Health Center, Inc.

Officers

Pursuant to the bylaws the officers of the Group shall be elected annually by the trustees and there shall be a president, vice president, treasurer, clerk and such other officers, if any as the trustees may determine. The officers shall be elected annually by the trustees at their first meeting following the annual meeting of the members. The president shall be the chief executive officer of the corporation and, subject to the control of the trustees, shall have general charge and supervision of the affairs of the corporation.

The elected officers and their respective titles at December 31, 2015 follows:

<u>Name of Officer</u>	<u>Title</u>
Jeffery Lieberman	President
Donna Desmond	Vice President
Terrence B. Gagne	Treasurer
Cecile Durham	Clerk

Administrator

During the operating period review, the Group by a written administrative service agreement engaged Cabot Risk Strategies, LLC to perform and manage the day-to-day activities of the Group.

TERRITORY AND PLAN OF OPERATION

The Group is a self-insurance group permitted to transact business only in the Commonwealth of Massachusetts.

REINSURANCE

The Group maintains a specific excess workers' compensation insurance policy with an unaffiliated insurer. Under this policy, the Group's losses at December 31, 2015, in excess of \$750,000 for each individual accident or employee will be covered by the policy in accordance with statutory limits. Due to difficulties in the current reinsurance market, the Group has been unable to obtain coverage with a \$500,000 maximum retention and aggregate excess coverage in accordance with 211 CMR 67.21.

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Group with the Division and present the financial condition of the Group for the period ending December 31, 2015. The financial statements are the responsibility of the Group's management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2015

Statement of Income as of December 31, 2015

Statement of Capital and Surplus for the Year Ended December 31, 2015

Reconciliation of Capital and Surplus for the Three-Year Period Ended December 31, 2015

Massachusetts Bay Self-Insurance Group, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2015

Assets	<u>As Reported by the Group</u>
Bonds	\$ 4,035,522
Cash and short-term investments	<u>1,290,055</u>
Subtotals, cash and invested assets	5,325,577
Investment income due and accrued	30,085
Uncollected premiums in course of collection	58,690
Aggregate write-ins for invested assets:	
Other Receivables	246,776
 Total Assets	 <u>\$ 5,661,128</u>
 Liabilities	
Losses	\$ 2,967,004
Loss adjustment expenses	341,161
Other expenses	58,752
Taxes, licenses and fees	28,425
Dividends declared and unpaid: Policyholders	1,686,414
Ceded reinsurance premiums payable	4,099
Aggregate write-ins for liabilities:	
Payable to members	<u>346,645</u>
Total Liabilities	<u>5,432,500</u>
Aggregate write-ins for other than special surplus funds	1,389,211
Unassigned funds (surplus)	<u>(1,160,583)</u>
Surplus as regards policyholders	<u>228,628</u>
 Total Liabilities, Capital, and Surplus	 <u>\$ 5,661,128</u>

Massachusetts Bay Self-Insurance Group, Inc.
Statement of Income
As of December 31, 2015

	<u>As Reported by the Group</u>
Premiums earned	\$ 2,663,532
Deductions:	
Losses incurred	902,708
Loss expenses incurred	227,051
Other underwriting expenses incurred	536,195
Total underwriting deductions	<u>1,665,954</u>
Net underwriting gain (loss)	<u>997,578</u>
Net investment income earned	82,523
Net realized capital gains (losses)	<u>907</u>
Net investment gain (loss)	<u>83,430</u>
Net gain (loss) from agents' or premium balances charged off	<u>(3,701)</u>
Total other income	<u>(3,701)</u>
Net income before dividends to policyholders and before federal and foreign income taxes	1,077,307
Dividends to policyholders	<u>1,077,307</u>
Net income, after dividends to policyholders but before federal and foreign income taxes	0
Federal and foreign income taxes incurred	<u>0</u>
Net Income	<u>\$ 0</u>

Massachusetts Bay Self-Insurance Group, Inc.
Statement of Capital and Surplus
As of December 31, 2015

	<u>As Reported by the Group</u>
Surplus as regards policyholders, December 31, 2014	\$ 239,752
Net income	0
Change in nonadmitted assets	(334)
Aggregate write-ins for gains and losses in surplus	<u>(10,790)</u>
Change in surplus as regards policyholders for the year	<u>(11,124)</u>
Surplus as regards policyholders, December 31, 2015	<u>\$ 228,628</u>

Massachusetts Bay Self-Insurance Group, Inc.
Reconciliation of Capital and Surplus
For the Three Year Period Ended December 31, 2105

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Surplus as regards policyholders, December 31, prior year	\$ 239,752	\$ 239,862	\$ 239,862
Net income	0	0	0
Change in net unrealized capital gains or (losses)			
Change in nonadmitted assets	(334)	(110)	0
Aggregate write-ins for gains and losses in surplus	<u>(10,790)</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	<u>(11,124)</u>	<u>(110)</u>	<u>0</u>
Capital and surplus, December 31, current year	<u>\$ 228,628</u>	<u>\$ 239,752</u>	<u>\$ 239,862</u>

**ANALYSIS OF CHANGE IN FINANCIAL STATEMENTS RESULTING
FROM THE EXAMINATION**

There have been no changes to the amounts reported in the Annual Statement.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Losses	\$ 2,967,004
Loss Adjustment Expenses	\$ 341,161

The Division has relied on the analysis performed by the Group's actuary, Willis Towers Watson ("Willis"), to review the reasonableness of the loss and loss adjustment expense reserves (the "Reserves") of the Group as of December 31, 2015. The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

The Group held net loss and LAE reserves of \$3.3 million as of December 31, 2015. These Reserves are net of anticipated salvage and subrogation, discounting and ceded reinsurance.

Willis's actuarial review utilized various actuarial methodologies to analyze the Group's accident year paid and incurred loss data at annual valuations through December 31, 2015. Willis's actuarial central estimate of the net loss and LAE reserves is \$3.3 million. Willis also calculated a range of estimates that it considered reasonable and acceptable. The overall reasonable range of estimates extends from \$2.8 million to \$3.9 million.

The table below summarizes a comparison of Willis's range of reasonable estimates for loss and LAE reserves to the Group's net carried loss and LAE reserves as of December 31, 2015.

	Low Point of Range	Selected Estimate	High Point of Range
Willis Estimate	\$2,818,000	\$3,308,000	\$3,996,000
Group Carried	3,308,165	3,308,165	3,308,165
Group Carried Over / (Under) Willis	490,165	165	(687,835)

SUBSEQUENT EVENTS

Subsequent to December 31, 2015, there were no material items that came to our attention for inclusion in the report of examination.

SUMMARY OF RECOMMENDATIONS

The examination does not have any recommendations for the Group.

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Group to the Division's examiner during the examination.

A handwritten signature in cursive script, reading "Kenneth R. Plumb", is written over a horizontal line.

Kenneth R. Plumb, CPA, CFE
Examiner-in-Charge
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance